

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 SAM-01 DODE-00 PM-07

H-03 L-03 NSC-07 PA-04 PRS-01 SS-20 USIA-15 STR-08

CEA-02 AGR-20 DRC-01 /196 W
----- 064251

R 201120Z JUL 74

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 0057

AMCONSUL PONTA DELGADA

AMCONSUL OPORTO

UNCLAS LISBON 3054

EO 11652: N/A

TAGS: ECON, PO

SUBJ: ECONOMIC PICTURE

REFS: A) LISBON 2506; B) LISBON 2858

SUMMARY: CONDITIONS AND ATTITUDES DESCRIBED IN REF A HAVE NOT MARKEDLY CHANGED DURING THE PAST MONTH. INFLATION, LABOR UNREST, SLIGGISH ECONOMIC PERFORMANCE, UNEMPLOYMENT, AND LAGGING TOURISM, EMIGRANT REMITTANCES, AND INVESTMENTS--ALL PERSIST IN VARYING DEGREES. THE KEY TO IMPROVED PERFORMANCE IS RESTORATION OF BUSINESS CONFIDENCE. SUCH CONFIDENCE, WHICH HAD BEEN GRADUALLY STRENGTHENING, WAS TEMPORARILY SET BACK WITH THE COLLAPSE OF THE PALMA CARLOS GOVERNMENT. THE ACTIONS OF THE NEWLY SWORN-IN GOVERNMENT, PARTICULARLY ITS APPROACH TO THE LONG PROMISED PACKAGE OF ECONOMIC AND LABOR LAWS, WILL BEAR HEAVILY ON THE EVOLUTION OF BUSINESS ATTITUDES. END SUMMARY.

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1. PORTUGAL'S FOREMOST ECONOMIC PROBLEM REMAINS

INFLATION, NOW HOVERING AROUND 30 PERCENT ANNUALLY. THE GOVERNMENT, HOWEVER, AWASH IN RISING EXPECTATIONS, HAS LET IT BE KNOWN THAT IT WILL NOT TAKE TRADITIONAL ANTI-INFLATION MEDICINE--CURTAILING CREDIT, ALLOWING UNEMPLOYMENT TO RISE, SEVERLY CURBING WAGES. THEIR EXPRESSED HOPE AT THE MOMENT LIES IN PROMOTING INCREASED PRODUCTIVITY AND GREATER JOB OPPORTUNITIES, WITH SOME SELF-RESTRAINT BY THE PEOPLE.

2. MORE IMPORTANT TO THE GOVERNMENT IN THE SHORT RUN IS THE FACT THAT ECONOMIC ACTIVITY IS EITHER STAGNATING OR RECEDING AS BUSINESSMEN AWAIT THE OUTCOME OF POLITICAL DEVELOPMENTS. AN EXTREME CASE IS THE CONSTRUCTION INDUSTRY. PEOPLE ARE NOT INVESTING IN PUBLIC BUILDINGS AND HOUSES. THE FEW WHO WANT TO BUILD SAY THAT THEY CANNOT GET CREDIT AND THAT THEY EITHER DON'T HAVE OR ARE UNWILLING TO INVEST THEIR OWN FUNDS. AS A CONSEQUENCE, LARGE NUMBERS OF CONSTRUCTION WORKERS ARE WITHOUT EMPLOYMENT (E.G., 30,000, SOUTH OF THE TAGUS ALONE, ARE REPORTEDLY SEEKING WORK).

3. OVERALL, UNEMPLOYMENT IS MASKED BY THE VACATION SEASON. MANY EMPLOYERS, WHO ARE LEGALLY BOUND TO VACATION PAYMENTS IN ANY EVENT, ARE POSTPONING A DECISION ON DISMISSALS UNTIL AFTER THE HOLIDAY SEASON. UNLESS ECONOMIC ACTIVITY HAS PICKED UP BY OCTOBER, UNEMPLOYMENT AT THAT TIME COULD TAKE ON SERIOUS PROPORTIONS. THERE IS NO DOUBT IN THE MEANTIME THAT EMPLOYMENT IS INCREASING IN AREAS OTHER THAN CONSTRUCTION. TWO AMERICAN SUBSIDIARIES, FOR EXAMPLE, RECENTLY DECIDED TO LET APPROXIMATELY 20 PERCENT OF THEIR WORK FORCES GO; I.E., DISMISSAL OF SOME 300 PEOPLE. OTHER U.S. FIRMS ARE CONTEMPLATING SIMILARY ACTION. ONE TEXTILE MILL IN THE NORTH, EMPLOYING 700, IS REPORTED TO HAVE CLOSED ITS DOORS. GOVERNMENT EMPLOYMENT FIGURES FOR JUNE SHOW CLOSE TO 50 PERCENT INCREASE IN THE NUMBER OF JOBS BEING SOUGHT AGAINST A SMALL DECREASE IN THE NUMBER BEING

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OFFERED, THERE BEING THREE TIMES AS MANY JOBS SOUGHT AS OFFERED.

4. RISING UNEMPLOYMENT HAS NOT YET HAD THE EFFECT OF CURBING IMPORTANT WORK STOPPAGES (E.G., A LARGE PART OF THE FISHING INDUSTRY IS STRIKING OR THREATENING TO STRIKE), THOUGH SOME BUSINESSMEN REPORT A MORE SOBER, RESPONSIBLE ATTITUDE AMONG THEIR WORKERS. IN THE ABSENCE OF STATISTICS, IT IS DIFFICULT TO SAY HOW

MUCH ECONOMIC ACTIVITY HAS SLOWED SINCE THE REVOLUTION OF APRIL 25. THE GENERAL VIEW IS THAT THE LOW POINT HAS BEEN PASSED, WITH MANY REPORTING PRODUCTION AND SALES AS COMPARABLE TO OR JUST BELOW LEVELS LAST YEAR. IT'S SAFE TO SAY, HOWEVER, THAT NO MAJOR INVESTMENTS HAVE BEEN INITIATED IN THE PRIVATE SECTOR SINCE THE COUP.

5. ADDING TO THE GOVERNMENT'S CONCERN IS A DECLINE IN TOURISM AND EMIGRANTS REMITTANCES. WHILE A DECREASE IN SPENDING POWER IS WELCOME FROM AN INFLATION POINT OF VIEW, THE GOP HAS ITS EYE COCKED ON A GROWING TRADE DEFICIT (\$1.1 BILLION IN 1973) AND A DWINDLING FOREIGN EXCHANGE RESERVE. THE LATTER, A HEFTY \$2.5 BILLION (MAY 29) AND ENOUGH FOR 10.5 MONTHS AT 1973'S RATE OF IMPORTS, HAS NEVERTHELESS DECLINED FROM \$2.7 BILLION AT ITS PEAK (DEC. 26, 1973). PLUS ENTRIES IN THE BALANCE OF PAYMENTS FOR EMIGRANTS REMITTANCES AND TOURISM NORMALLY EXCEED THE MINUS TRADE-BALANCE ENTRY BY A WIDE MARGIN. AT A TIME WHEN PETROLEUM AND OTHER COMMODITIES ARE PUSHING ITS IMPORT BILL UP AND AT A TIME WHEN IT WANTS TO IMPORT TO EXPAND ITS PRODUCTIVE BASE, THE GOP FINDS THE CHANGE IN THE BALANCE OF PAYMENTS PICTURE WORRISOME. AS FOR EMIGRANT REMITTANCES, SOURCES IN THE BANK OF PORTUGAL INDICATE THAT THE LOW POINT WAS REACHED SHORTLY FOLLOWING THE REVOLUTION AND THAT THEY ARE NOW WELL ON THE ROAD TO RECOVERY. TOURISM IS DOWN 30 TO 40 PERCENT, ACCORDING TO TRADE SOURCES, OWING TO A GENERAL DOWN-TURN IN INTERNATIONAL TRAVEL WITH LOCAL CONDITIONS (CHOLERA SCARE, UNCERTAINTY ABOUT STABILITY) AS CONTRIBUTING FACTORS.

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6. COMMENT: PORTUGAL'S ECONOMIC WOES ARE ALMOST ENTIRELY INHERITED FROM THE PREVIOUS REGIME. THE ONLY MAJOR NEW FACTOR IN THE PRESENT SITUATION IS A DECLINE IN CONFIDENCE. SHAKEN BY THE REVOLUTION, THE BUSINESS COMMUNITY WAS ONLY BEGINNING TO EMERGE FROM ITS DOUBTS WHEN THE PALMA CARLOS GOVERNMENT COLLAPSED IN EARLY JULY. WHILE IT IS TOO EARLY TO TELL WHAT EFFECT THE JULY 17 NAMING OF A NEW GOVERNMENT HAS HAD, PRESIDENT SPINOLA'S CALL AT THE SWEARING-IN CEREMONY FOR DISCIPLINE AND AUSTERITY WILL FALL ON WELCOME EARS, AS WILL THE NAMING OF A NON-COMMUNIST TO HEAD THE LABOR IMISTRY. ALTHOUGH THE DEPARTURE OF VIEIRA DE ALMEIDA AS MINISTER OF ECONOMIC COORDINATION WILL BE LAMENTED--ALMEIDA WAS LOOKED ON AS A POTENTIAL CHAMPION OF BUSINESS INTERESTS--HIS REPLACEMENT

BY TWO MEN CLOSE TO HIM WILL BE REASSURING.
IN THE FINAL ANALYSIS, HOWEVER, PERSONALITIES AND
TALK WILL NOT BE ENOUGH TO BRING THE RESURGENCE
OF CONFIDENCE NEEDED TO MAKE THE ECONOMY TICK OVER AT
A FASTER PACE. IT WILL REQUIRE LAWS AND ACTIONS.
BUSINESSMEN ARE PARTICULARLY KEEN TO SEE THE
ECONOMIC LAWS PROMISED FOR JULY (SEE REF B). HOW
THE NEW GOVERNMENT HANDLES THIS LEGISLATION WILL BE
AN IMPORTANT DETERMINANT OF BUSINESS ATTITUDES.
SCOTT

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LABOR RELATIONS, ECONOMIC CONDITIONS, LAW, INVESTMENTS, FOREIGN INVESTMENTS, INVESTMENT OPPORTUNITIES, PRIVATE INVESTMENTS, TAX CHANGES, PRESS CONF ERENCES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LISBON03054
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740196-0381
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740732/aaaabawj.tel
Line Count: 179
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A) LISBON 2506; B) LISBON 2858
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 28 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 OCT 2002 by ThomasVJ>; APPROVED <29-Oct-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC PICTURE
TAGS: ECON, PO
To: STATE OPORTO
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005